

# **Corporate Governance for Family Businesses**

## **What is Corporate Governance?**

**Corporate governance** refers to the processes, structures, policies and laws that govern the management of a company.

It also refers to the way the Board oversees the operations of a company and about how board members are accountable to the company and its shareholders.

The key purpose of corporate governance is to promote accountability, transparency, fairness, disclosure and responsibility - core values that are relevant to the success of all businesses, irrespective of where they come from.

Companies with sound corporate governance usually perform better than other companies. Good corporate governance results in:

- Better access to external capital
- Lower financing costs
- Higher credit ratings
- Strong investor confidence

## **Family Businesses – A Vital Part of the Economy**

Family businesses are the backbone of many economies around the world. Their sustainability is critical to global economic growth. Some of the largest companies in the world including Wal-Mart, Ford, Carrefour, BMW, Samsung and Motorola, are family firms.

In the Middle East region, they account for 95 per cent of all private sector companies. As such, family firms like yours play a vital role in economic development not only through their business contributions but also by creating an investment environment that is open, safe, secure and transparent.

## **Why Corporate Governance is Crucial for Family Firms**

Increasing growth and globalisation has brought many challenges for family businesses. The way you deal with them can mean the difference between success and failure.

Many of these challenges can be tackled by adopting sound corporate governance systems.

### **Managing Growth**

As family firms expand, the relationship between owners, managers and employees becomes more complex. A good corporate governance system puts in place the right policies to manage this complexity. It creates a solid organisational structure that clarifies roles, reporting lines and delegation of responsibility. Corporate governance also draws the line between ownership and management and separates policy direction from the day-to-day running of the company.

### **Succession Planning**

Leadership succession is a challenge for all companies, but particularly for family businesses. To ensure that leadership transition does not disrupt your company's growth, you need to have clear policies for the selection of the right family member. Successful family businesses are the result of years of hard work and dedication. To pass on this success, corporate governance needs to be made part of the family firm's culture.

### **Preserving Family Harmony**

Family members may have conflicts among themselves on the running of the company. A solid governance system helps resolve such conflicts allowing family members to focus on other key issues.

### **Recruitment and Promotion**

Recruitment and human capital management are major factors in a family firm's long-term success. A governance system that provides clear guidelines for employing family or non-family members and impartial performance-based promotion is essential to the sustainability of your business.

### **Ensuring Fairness**

Open decision-making and procedures that ensure fairness in evaluating and rewarding both family and non-family employees are essential tools in avoiding tensions and raising the reputation of your company.

## **Be Part of the Corporate Governance Movement**

More and more family-owned businesses in the region are embracing corporate governance to secure their long-term future. Over the past few years, many firms have taken the initiative to formalise policy frameworks and structures for effective governance.

As the Middle East enters a new phase of growth and integrates more closely with the global economy, family businesses that ignore corporate governance now are likely to lose their competitive edge in the future.

With significant resources available for companies wishing to adopt governance systems, this is the most opportune time to strengthen corporate governance in your company.